

2.2 ADEQUATE COST DATA

Providers receiving payment on the basis of reimbursable cost must provide adequate cost data. This must be based on their financial and statistical records which must be capable of verification by qualified auditors. The cost data must be based on an approved method of cost finding and on the accrual basis of accounting. However, where governmental institutions operate on a cash basis of accounting, cost data based on such basis of accounting will be acceptable, subject to appropriate treatment of capital expenditures.

Definitions:

- (1) Cost Finding - Cost finding is the process of recasting the data derived from the accounts ordinarily kept by a provider to ascertain costs of the various types of services rendered. It is the determination of these costs by the allocation of direct costs and proration of indirect costs.
- (2) Accrual Basis of Accounting - Under the accrual basis of accounting, revenue is reported in the period when it is earned, regardless of when it is collected, and expenses are reported in the period in which they are incurred, regardless of when they are paid.

Adequate cost information must be obtained from the provider's records to support payments made for services rendered to recipients. The requirement of adequacy of data implies that the data be accurate and in sufficient detail to accomplish the purposes for which it is intended. Adequate data capable of being audited is consistent with good business concepts and the effective and efficient management of any organization, whether it is operated for profit or on a non-profit basis. In order to provide the required cost data and not impair comparability, financial and statistical records should be maintained in a manner consistent from one period to another. However, a proper regard for consistency need not preclude a desirable change in accounting procedures when there is reason to affect such change.

2.3 COST FINDING METHOD

When reporting costs the provider agency must meet the following minimum requirements:

- (1) Each group of costs represents a cost center as defined in HIM-15, Section 2302.8, which is separately identified in the provider's charge and/or book of accounts (general ledger, etc.) and where costs are assigned in the normal accounting process.
- (2) The statistical base used to allocate each cost center must measure the service rendered by that center to other cost centers as accurately as possible.
- (3) The statistics used must be auditable and maintained on a continuous basis. Periodic time studies would only be acceptable where the samples are collected covering a minimum of two weeks in each quarter.
- (4) Once a cost center is broken out, it must be handled in a consistent manner in subsequent years. After a provider makes a more sophisticated delineation of cost centers, it cannot revert to a less sophisticated format.

HIM-15, Section-2313 states that:

When a provider wishes to changes its allocation basis for a particular cost center or the order in which the cost centers are allocated because it believes the change will result in more appropriate and more accurate allocations, the provider must make a written request to its intermediary for approval of the change and submit reasonable justification for such change prior to the beginning of the cost reporting period for which the change is to apply.

The Bureau of Rate Setting's approval of a provider's request will be furnished to the provider in writing. Where the Bureau of Rate Setting approves the provider's request, the change must be applied to the cost reporting period for which the request was made, and to all subsequent cost reporting periods unless the Bureau of Rate Setting approves a subsequent request for change by the provider. The effective date of the change will be the beginning of the cost reporting period for which the request has been made.

Statistical Bases to be Used

The following Table includes bases classified as either allowable or non-allowable methods of allocating costs to the various cost centers or programs. Provider may only use one of the alternative allocation bases where they can demonstrate that the alternate bases will produce more appropriate and accurate results, and these statistics are auditable. The use of more than one statistical basis for allocating any cost center is not permitted.

Where a provider identifies certain other overhead cost centers and/or statistical bases which are not listed below, the schedule must be submitted to the Bureau of Rate Setting for approval of the non-standard cost centers/bases.

TABLE**COST DISTRIBUTION BASES**

Cost Centers	Acceptable Bases	Non-Acceptable Bases*
1. Depreciation - buildings and fixtures	1. Square feet for total depreciation 2. Individual building depreciation allocated on square feet (a sub-schedule will be required to show these computations)	
2. Depreciation - movable equipment	1. Square feet 2. Actual depreciation by cost center	
3. Employee Health & Welfare/ Fringe Benefits	Gross salaries	Average number of employees and full-time equivalents
4. Administration and General	1. Accumulated Cost 2. Gross salaries	
5. Telephone (allowable costs only)	Number of non-client telephones	
6. Purchasing	1. Number of purchase orders 2. Dollar value of purchases (exclusive of fixed assets purchases)	
7. Admitting	Accumulated inpatient revenue - ancillary and routine (outpatient revenue should be included if outpatient admitting functions are performed)	Number of admissions (not allowable as it does not allocate any costs to ancillary departments)

*This represents bases that have been determined to be unacceptable, it is not meant to be all inclusive.

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TABLE (cont'd)

Cost Centers	Acceptable Bases	Non-Acceptable Bases*
8. Client/Patient Accounting	Gross revenues	1. Number of documents posted 2. Number of client/patient days (not allowable due to exclusion of outpatients)
9. Operation of Plant	Square feet	
10. Maintenance of Plant	Square feet	Costed work orders
11. Laundry and Linen	1. Pounds of soiled laundry processed 2. Pounds of processed laundry issued 3. Itemized bills by department for purchased service	
12. Housekeeping	1. Hours of service 2. Square feet of cost centers serviced	
13. Dietary - raw food	Number of meals served	
14. Cafeteria (allowable costs only)	1. Number of meals served 2. Sales value of meals sold 3. Number of employees	Salaries of employees
15. Nursing Service Administration	1. Actual hours of nursing service supervised 2. Number of employees supervised	1. Time studies 2. Salaries of employees

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TABLE (cont'd)

Cost Centers	Acceptable Bases	Non-Acceptable Bases*
16. Medical Supplies and Expenses or Central Supplies and Services	<ol style="list-style-type: none"> 1. Costed requisitions 2. Other special analysis of supplies usage based on auditable records 	
17. Pharmacy	<ol style="list-style-type: none"> 1. Costed requisitions 2. Special study based on auditable records 	
18. Medical Records	<ol style="list-style-type: none"> 1. Percentage of time spent based on auditable records 2. Any other basis must include time spent for outpatient, doctors, nursery, and other special service areas (e.g., ICU, CCU) 	Number of admissions (not allowable since it does not reflect potential for other activities such as outpatient and nursery)
19. Social Services	Time spent in providing casework service for clients/patients in each center (including outpatients and special care, if applicable)	
20. Nursing School	Assigned time (hours) of student nursing service by department	
21. Intern and Resident School	Assigned hours of service by the department for interns and residents	

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After the close of provider's reporting period (fiscal year) the following method of cost finding must be used by the ICF/MR provider for the determination of actual costs of services rendered during that period.

Step-Down Method

This method recognizes that services rendered by certain non-revenue-producing departments or centers are utilized by certain other non-revenue-producing centers as well as by the revenue-producing centers. All costs of non-revenue-producing centers are allocated to all centers which they serve, regardless of whether or not these centers produce revenue. The costs of the non-revenue-producing center serving the greatest number of other centers, while receiving benefits from the least number of centers, is apportioned first. Following the apportionment of the cost of the non-revenue-producing center, that center will be considered "closed" and no further costs are apportioned to that center. This applies even though it may have received some service from a center whose cost is apportioned later. Generally, when two centers render service to an equal number of centers while receiving benefits from an equal number, that center which has the greatest amount of expense should be allocated first.

The Bureau of Rate Setting has developed a uniform cost report for the cost finding method described above. Section 5 of this ICF/MR manual provides a sample cost report for the Step-Down Method.

SECTION 3 - GENERAL PRINCIPLES FOR DETERMINING COSTS

NOTE: THE COST PRINCIPLES CONTAINED IN THIS SECTION REFLECT GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND SHOULD BE USED BY THE PROVIDER ONLY AS A GUIDE. THE MEDICARE PRINCIPLES OF REIMBURSEMENT ARE THE GOVERNING REGULATIONS APPLICABLE TO THE ICF/MR PROGRAM AND MUST BE USED INSTEAD OF THE "GENERAL PRINCIPLES FOR DETERMINING COSTS," IF ANY DIFFERENCES IN THE TREATMENT OF SPECIFIC ITEMS OF COSTS EXIST.

SECTION 3
PRINCIPLES FOR DETERMINING COSTS

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General Standards for Unallowable Costs

3.1 INTRODUCTION

This section promulgates principles and standards for determining costs applicable to service programs sponsored by the Department of Human Services acting through Divisions. They are designed to provide a basis for a uniform approach to the problem of determining costs, and to promote greater efficiency and better relationships between the Division and individual agencies from which services are purchased.

Scope

These principles are confined to the subject of cost determination and make no attempt to identify the circumstances or dictate the extent of agency and Division participation in the financing of a particular program. The principles are designed to provide recognition of the full allocated costs of work under generally accepted accounting principles. No provision for profit or other increment above cost is provided for in these principles.

Policy Guides

The successful application of these principles requires development of mutual understanding between representatives of the agency and of the Division as to their scope, applicability, and interpretation. It is recognized that the arrangements for the agency and Division participation in the financing of a program are properly subject to negotiation between the agency and the Division in accordance with such government wide criteria as may be applicable, that each agency should be expected to employ sound management practice in the fulfillment of its obligation, and that each provider organization in recognition of its own unique combination of staff, facilities and experience should be responsible for employing whatever form of organization and management techniques as may be necessary to assure proper efficient administration.

Limitations

Acceptance of the provider agencies rate(s) is predicated on the conditions that:

- (1) No costs other than those costs incurred by the Agency were included in its service program cost category as finally accepted and that such costs are allowable under the governing cost principles.
- (2) Similar types of costs have been accorded consistent accounting treatment.
- (3) The information provided by the Agency which was used as a basis for acceptance of the provider agency rate(s) is not subsequently found to be materially incomplete or inaccurate.